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# Asian crisis and the future of the Japanese model

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The 'Japanese model' may well not preserve its distinctiveness in the general picture of global capitalism for many more decades, but if and when change comes, it will have very little to do with the current problems of Japanese banks or with the current economic downturn, much less with the panic crises which have afflicted four Asian economies. It will result partly from the long-term pressures stemming from global financial markets, partly from the worldwide effects of American cultural hegemony, and partly from the working through of profound social structural changes stemming from Japanese society's arrival at the age of affluence.

## Introduction

Asia's 'version of capitalism . . . emphasising not markets but government planning and long-term relationships . . . is now widely regarded as a problem rather than a solution.'[1] ''Gone are all the self-confident claims about the superiority of Asian values.'[2] And Asian gloom is matched by American triumphalism. Markets win. Goethe was right. America has it better.

We shall see when the recovery process has finished. Clearly, Korea is the test case. Whatever may be the nature of their small business sectors, any characterisation of Malaysia and Thailand's form of capitalism must surely turn on the Multi National Corporation) (MNC) domination of their corporate sectors—which is not likely to change. It is Korea, of all the crisis countries, which has an indigenously evolved corporate sector. Shall we see fundamental change in Korea's corporations—their financing structure, their managerial objectives, their labour relations, their degree of cartelization, their relation to government? And will the Asian crisis prove to have an impact on China's 'socialism with Chinese characteristics'? Or on Taiwan's prosperous agglomeration of medium enterprises? Or on Japan's "Rhine model' capitalism? The last is the question which this paper addresses.

It is said[3] that some of the elements in the package the IMF sought to impose on Korea—those which were least obviously relevant to curing the financial crisis such as the 'flexibilisation' of labour markets and corporate governance reforms—were in fact included at the behest of Korean officials in the Economic Planning Ministry (doubtless

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[1] *International Herald Tribune*, Tokyo edition, 19 January 1998.
[2] *The Economist*, 7 March 1998, Survey, p. 5.
[3] See Wade (1998), quoting Mathews (1998).

English-fluent, economics PhDs from leading American universities). If so, they were acting within a well-established Asian tradition—at least, one well established in Japan. *Gaiatsu*—foreign pressure, usually stemming from US–Japan trade talks—has long been a potent influence on Japanese policy, and hence a favourite weapon of those Japanese seeking reinforcement for a variety of material or ideological objectives—to break the power of the agricultural protection lobby, to shift tax burdens in the alcoholic drinks market, to clean up the stock exchange or to give more power to shareholders.

*The deflationary crisis*

At present, all the overt *gaiatsu* on Japan stemming from the Asian crisis has concentrated on berating the government for letting its economy get into such a parlous state of gloom that it is importing ever less from Asia when it should be importing ever more to help in Asia's recovery. Since nobody in Japan in May 1998 needs telling that they need to do something and do it quickly, it has little effect,[1] except, when a Rubin or a Summers or a Camdessus says that Japan needs a fiscal stimulus package of at least 4% of GNP, or tells them that it should be in the form of tax cuts rather than public investment, to make that particular option more difficult for nationalist politicians to adopt even though they may have been on the verge of choosing it.

The contraction of Asian markets was certainly one factor in producing the current dire situation. It contributed to the declining spiral of consumer anxiety, reduced spending, increased savings and reduced producer investment, a declining spiral which has reversed what looked in 1996, with its 3·6% growth rate, to be the final stages of recovery from the debt deflation of the early 1990s. The timing could not have been worse—the Thai bust came just as Japanese consumers were recovering from the slow-down brought on by the sales tax increase, the end of a temporary income tax cut and increases in health charges. These were all measures which prudent bureaucrats and economists had demanded in order to deal with the alarming rise in the public debt—rapidly approaching 100% of GDP as a result of the, often quite bold, efforts to spend the economy out of its five-year recession. The deflationary impact of these 'for the sake of our grandchildren' measures was expected to be temporary, and was declared by commentators to have just about worked through, when the Asian crisis hit.

There can be no doubt that as the Asian dominoes fell, the gloom-inducing effects were considerable. Of Japan's exports, 46% went to Asia in 1996 (compared with 30% in 1990);[2] the prospect loomed of increased Asian, especially Korean competition at their new, lower exchange rates; Japan's 11 billion Asian investments included many firms producing primarily for local domestic markets; Japanese banks with an estimated $264 billion at risk at the end 1996 (then about 35% of Asia's foreign loans) faced the prospect of more bad loans to add to the catalogue of misery hanging over them since the bursting of the bubble. Asia, however, was probably not as decisive a factor in lowering business confidence as the impact of the endogenously produced turmoil in the financial industry. (One Japanese steel executive showed an unusual confidence about the impact of Asia when he said [is this what they mean by "crony capitalism"?] that the Korean steel-maker

[1] There is disagreement about this. One journalist claims, somewhat implausibly, that the much publicised press conference by Ohga, the Sony President, at which he claimed that the Japanese economy was on the brink of disaster, was contrived by the activist faction within the government in order to increase *gaiatsu* on Japan at the London Asia–Europe summit and *therefore* make action more likely (Joanna Pitman, 'Letter from Japan', *Prospect*, May 1998).

[2] For these and subsequent magnitude figures I am indebted to Fukukawa (1998).

Posco would act responsibly and not take advantage of the cheap won to disrupt international markets, having recently had the presidency of the international steel federation.[1] And, indeed, in April 1998, the five big steel companies all announced an increase—on average of 5%—in their investment plans for the following year.)

It was not Asia but the difficulties of the banks and securities companies which dominated the headlines. For inducing anxiety in consumers there is nothing like big bankruptcies and the sight of the president of a major security company weeping on television. (Significantly, the tears came after an otherwise impassive performance, when he was asked what would happen to Yamaichi's 7,500 employees.) The strategy for dealing with the burden of bad debts left by the collapse of what must surely count as one of the biggest speculative bubbles in history had been, in one of Alan Greenspan's better phrases, to plod on against 'the head-winds of balance-sheet restructuring'—i.e., gradually to absorb them out of healthy profits—which, thanks to the mechanics of monetary policy, the banks had recently been getting. The downturn of the economy in 1997 made this strategy more difficult for the weaker banks. Nissai, one of the long-term credit banks, was rescued by the traditional 'convoy system' in the spring: all the other major banks—the faster ships—were induced to share in a new injection of capital. The decision not to provide the same helping hand to the Hokkaido bank and to Yamaichi seems to have been induced only partly by the marginally greater size of their problems. Two other factors were involved. First, there was exasperation on the part of the regulators, and of the other banks which might have been called on to help out, with the particularly gross—and in the long run fatally costly—forms of balance-sheet dressing of which the management of those firms (but particularly Yamaichi) had been guilty. Second, having taken the decision to open up the finance industry to foreign competition—the so-called Big Bang was due to happen on 1 April 1998—the Ministry of Finance was particularly sensitive to criticism from the foreign financial community to the effect that the hugger-mugger methods of keeping lame ducks alive, and the unwillingness to cut out dead wood with a few salutary bankruptcies, involved a lack of accounting transparency which amounted to deception of 'the markets'.

## Cyclical or structural?

The 'forms of capitalism' questions in all this are: how much is this a cyclical downturn, and how much evidence of deep structural problems? Even if it is deemed to be a cyclical phenomenon, how far will the downturn itself accelerate structural changes which were in any case under way?

Let us begin by listing the major features of the Japanese form of capitalism, in order to be clear about *what* it is whose transformation is in question.

*Structure of corporations*

(a) Governance by senior lifetime employees appointed through a seniority-constrained promotion system of bureaucratic type.

(b) Executive decisions guided by a much stronger sense on the part of senior executives of their responsibility to fellow employees than of their (legal) responsibilities to shareholders.

[1] Chihaya Noburi, interviewed in *Nihon keizai shimbun*, 14 January 1998. Perhaps he had good grounds for his confidence. In May his company and Posco announced plans for an equity swap (*Financial Times*, 20 May 1998).

(c) That stance made possible by the 'stable shareholder system', a large part of it mutual cross-holdings between companies, which prevents hostile takeovers and reduces shareholder pressure.

(d) Dividends tend, as a result, to be treated as a fixed (small) charge—nowadays, even with depressed stock-market values, not much more than a 1% yield.

(e) High, though secularly diminishing, reliance on debt finance.

(f) Employment system based on job security—at the very least an obligation on the firm to find alternative jobs for surplus employees.

(g) Neither wages nor salaries based primarily on 'rate-for-the-job' criteria. Seniority-plus-merit criteria for rank promotion, and for movement up incremental pay scales, produce age–wage curves for manual workers approaching the steepness of those for managers.

(h) Negotiations with cooperative in-house unions lead to public disclosure of those incremental scales for blue-collar workers and managerial workers up to their mid-thirties. The undisclosed scales for more senior managers are extensions of the latter, which sets a limit to top salaries. Presidents (apart from chauffeured cars for the rest of their lives and other perks) rarely get much more than ten times average pay.

*Competition*

Market competition is tempered by various forms of cooperation. First, there is a strong preference for long-standing 'relational contracting' between business firms: between banks, particularly a company and its 'main bank', between suppliers and their clients, particularly sub-contractors and assemblers in manufacturing and distribution. The maintenance of such relationships, and the long-term advantages accruing from them, are accepted as precluding immediate short-term maximising responses to market signals. One form of such 'preferred partner' trading relations are those within the *keiretsu* groups, some formed on the basis of pre-war *zaibatsu* groups, centring on major banks.

Competition between market rivals is also moderated by sectoral industry organisations which (helped also by industry federations of companies' unions) help to keep alive a sense of 'the XY industry' as a kind of quasi-community with a settled hierarchical structure (former presidents of the 'big five' or the 'big three' rotate the industry association presidency) and a wide range of common interests—promoting research, standards and quality certification, etc., but primarily dealing with government. They serve to temper market competition with obligations of good neighbourliness (as when the other steel firms took over Kobe Steel's orders after the earthquake and gave the customers back when the blast furnaces were repaired).

*Role of government*

Although no longer playing as important a role in indicative planning, or in the allocation of investment resources, the high-prestige bureaucracy is still generally accepted as having an important role to play as umpire between competing private interests—between consumers and producers, between refiners and distributors, between small retailers and the big chains and department stores. And also, of course, in macroeconomic management.

*Macroeconomic management*

This has greater room for manoeuvre than in most countries by virtue of the brake on wage inflation provided by the 'spring struggle' system of the annual wage round. Negotiations, company by company, take place after a process of 'expectations convergence' over a period of several months from the staking of initial negotiating positions by the national employers' association and the national union federation. The percentage increase established by the wage leaders becomes a 'norm of fairness' which affects wages in un-unionised firms and acts to constrain the salary increases also of chief executives and others whose salaries are individually bargained.

*Income distribution*

The last factor may be one reason why the dispersion of wages/salaries is more compressed than in most other advanced industrial societies. There are other 'solidaristic' egalitarian features—a high degree of progressivity in income tax, high inheritance taxes, an expensive national health service and a fairly generous level of pensions.

*How much 'a system'?*

There are two ways in which these features 'hold together'. The first is institutional interlock. Cross-shareholding, lack of hostile takeovers, diminished shareholder pressure for high profits and high dividends, are obviously preconditions for the costly implicit commitment not to sack redundant workers in a recession, as is the ability to bear extra short-term costs to maintain relations with supplier 'cronies' in order to maintain a reputation for fair dealing and the advantages of the supplier's future cooperation. The bureaucratic form of the remuneration system, serving to compress wage differentials, is a major factor in the relatively egalitarian income distribution and that in turn functions to maintain the sense of the 'firm as community', which helps to provide non-financial work incentives and which makes the incentives of big wage differentials less necessary. Some features are clearly peripheral—they could change without forcing too many other changes. Some are 'core' and any change would have widespread ripple effects: the cross-shareholding system, for example, if it disappeared, could have far-reaching effects on the 'employee sovereignty' which now replaces the shareholder sovereignty prescribed by law.

The other form of 'systemic cohesion' comes from what one might call 'psychological consonance'. Various parts of the system all require people to behave in similar ways—call on similar behavioural dispositions, consistently emphasising certain values. The most important are: (i) willingness to enter binding long-term commitments, i.e., a very moderate degree of liquidity preference; (ii) greater concern for long-term stable rewards than for short-term gain; (iii) a concern for the emotional and moral quality of the social relationships involved in economic transactions, the friendships and the mutual obligations they generate, as well as their material profitability (and note that 'friendships' include firm-to-firm relations as well as person-to-person—*vide* Honda's reaction when Rover ditched their long-standing collaborative relationship in favour of BMW); (iv) a tendency to view group solidarity as an important ingredient of that emotional and moral quality—the relevant 'group' being, depending on context, one's department, one's firm, one's industry, one's nation, Japan; (v) the egalitarian perception that group solidarity becomes impossible if inequalities, either of material reward or of respect, become too wide. (The journalists' 'crony capitalism', of course, seizes on (iii) and undiscriminately equates it with the corrupt distribution of favours by dictators.)

## From cyclical to structural change?

So much for Japan's version of 'Asian capitalism' (a wartime and post-war growth out of a much more 'Anglo-Saxon' pre-war system). If the story of the cyclical crisis described above is correct, what effects it is likely to have on the long-term survival of that system?

The first question is whether it is feasible to expect the economy to get back into the sort of balance which produced the high growth rates, high national confidence and general air of prosperity of the late 1980s—without the asset price bubble of those years. One—pessimistic—interpretation goes as follows. The economy was well balanced in those years, the balance being characterised by high savings, high animal spirits and high levels of investment, but low returns to capital. As the low returns indicate, a lot of the investment was wasteful; the wastefulness *ex post* was a function of low hurdle rates *ex ante.* That situation was possible in the decades before 1990 because of a secular rise in the price of assets, which only accelerated to bubble-producing proportions at the end of the 1980s. The wealth which inflated company balance-sheets and private pockets and produced that sense of prosperity was partly an accumulation of value added by productive activity, partly conjured out of thin air—and destined to vanish into the same thin air with the pricking of the bubble.

But the asset price rise was an essential lubricant of the system, and there is no prospect of it being resumed. Equities are still priced at a level much higher than earnings could justify and have further to fall. The end of population growth and of the rural exodus means also the end of real-economy pressure for a rising price of land. Capital gains will no longer substitute for dividends. The providers of capital will require higher returns; the more so because of globalisation and the far greater returns available in the Anglo-Saxon economies. (One direct effect of the crisis: Merrill Lynch has acquired the better part of the defunct Yamaichi's network and is now selling American mutual funds with great vigour.) Hence an end to the central feature of the system—the tendency to give higher priority to wages and employee welfare than to rates of return on capital—is inevitable.

The counter-argument is that exchange-rate fluctuations will keep the bulk of Japanese savings at home. Many Japanese investors in dollar securities will have their fingers burned if the 60% depreciation of the yen over the last two years is reversed in the next two. This could indeed happen if, as Japan's export surplus increases and its accumulated reserves mount, with the emergence of a strong euro as an alternative safe haven, the world's seemingly unshakeable confidence in the dollar takes a knock. The essential thing is that a system characterised by high savings and high investment does produce a high rate of growth in value added. And there is no reason why that system should not give a much smaller share of that value added to capital than is usual in Britain and America, if the sources of capital do not dry up.

And why should they? They have not dried up hitherto; savings ratios have in fact increased since the ending of the bubble. The true measure of efficiency in the use of capital is not the rate of profit or the return on equity but value-added output/capital ratios and although they have been declining in Japan in recent decades, as they decline in all economies as they mature, the decline has not been catastrophic.[1]

[1] A Japan Development Bank (JDB) calculation shows a trend decline of capital productivity in manufacturing (gross value added divided by the average of year-beginning and year-end fixed capital assets) from peak to peak of the business cycles from 148% in 1967 to 115% in 1988, with the corresponding figures for value added net of depreciation running in parallel from 126% to 98%. (The trend did slightly reverse from 1973 to the 1979 peaks, from about 136% to 139%.) Intersectoral differences were marked, however, with the raw material industries showing no clear trends around the 80% mark and the 'transforming and assembling' industries climbing with every boom from 94% in 1965 to 160% in 1979 and then falling consistently to 110% in 1991 (where the series stops: these last figures all for gross value added. Nihon Kaihatsu Ginko, *Chosa: Dai-173-go: Seizogyo ni okeru shihon-shueki kozo*, May 1993, p. 23). A similar

There will, undoubtedly, be difficulties restoring a viable balance among three manifestations of long-termism, namely:

the concern to reduce the national debt and to bequeath a solvent treasury to future generations, the concern which prompted, as it turns out prematurely, the attempt in 1997 to get public finances back into balance;
the prudence of households which maintains, and has recently increased their propensity to save; and
the low-hurdle-rate willingness of corporate managers to invest.

A simple set of figures suggests the magnitude of the turn-around in confidence required. At the height of the last boom, in 1990, households' net savings amounted to nearly 8% of GDP, the government saved another 3·5% and the corporate sector's net absorption of new funds took 10%. By 1995, household net savings were still some 7%, the government was a 4% dissaver and corporations absorbed only 2%. (Net transfers abroad were closer to 2% at the end of the period compared with 1% at the beginning.)[1]

A gargantuan task indeed to get back to the 1990 balance (or one based on a slightly higher level of consumer spending and a lower level of saving), but not an impossible one, and not as serious in real economy terms as the two major readjustments the economy has already made—to higher oil prices in the 1970s and to the Plaza Agreement in the 1980s. Current reporting from Japan is dominated by the news that one company after another is downgrading its forecasts because the recession has convinced them that they have got to adjust to a *permanently* lower value of their (cross-held) securities and show them on their balance sheet at their reduced market value.[2] Eight years later the unwinding of the bubble is far from over, but managers retain the flexibility to reach eventually a new equilibrium—thanks to the fact that they do not have to make the (short-term) creation of shareholder value their dominant concern.

## Longer-term sources of structural change

It is astonishing, however, how few of them seem actually to realise the importance of this structural condition for their ability to run their companies in what—by their values and objectives—is an optimal way. Every Tokyo lunchtime one can find gathering of senior businessmen which features some management guru declaring that 'we must in future pay more attention to our returns on equity' (for some reason the favourite measure), while everyone else nods sagely in agreement. The following conversation took place in April 1998; the respondent was the retiring president of a major trading company:

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calculation in the 1994 Economic White Paper shows that the decline in capital productivity was accelerating in the 1987–91 upturn (the marginal productivity of capital—calculated without time lags, i.e., year *t*'s capital increase over year *t*'s added value increase—rose only by 3%, compared with 15% and 5% in the two previous cycles). However, the decline in overall ROA is more to be explained by declining profit margins on sales (partly associated with a rise in the labour share, for which see the JDB analysis, p. 25) than with a decline in capital productivity. The report blames 'soft-headed (*amai*) investment decisions'. The report, however (an indication of the way American business school economics has colonised the Economic Planning Agency?), considers only total assets and makes no attempt to calculate separately the productivity of fixed and financial assets, nor to separate decision-making on plant investment from that on financial investment (and this *à propos* of the period when *zaitekku*—'financial technology': using spare cash for speculative short-term investment—was all the buzz). The report also takes the 'stick to your knitting' doctrine as so axiomatic that it treats the number of subsidiaries thrown off by major firms as an index of diversification leading to poor investment (*Keizai Hakusho*, June 1994).

[1] Keizai Kikakucho (Economic Planning Agency), Keizai yoran, 1997, p. 64.

[2] See, e.g., *Financial Times*, 13 May 1998.

— the cross-shareholding system has been one of the preconditions for maintaining lifetime employment. Will it survive?

— I don't know about a connection with lifetime employment, but cross-shareholding will wind down and I've been encouraging that.

— Why?

— When I meet with our foreign shareholders in London or New York or wherever, they are constantly challenging me: why do you keep all those resources locked up in investments with such derisory returns? And I find it difficult to answer them.

— But why do you need foreign shareholders anyway?

— I think a global company should have global ownership.

Greenspan's judgement about the end of Asian capitalism is not just a prediction. Given the current mood of Japan, it is also a factor making for its own fulfilment. Nationalist resentment at hectoring instructions from Washington is one thing. Accepting that the US offers a model of economic, and even of political, efficiency is quite another. And it is *nationalism* ('In the new era of global competition the only way we can compete is by adopting global standards') which drives the urge to adopt that model—in present day Japan as among the modernising samurai responding to Perry's Black Ships in 1853.

In part, the dominant attraction for things American is simply a reversion to 'normality'. The bubble boom when the world seemed at Japan's feet and American scholars were writing articles on a possible future Pax Japonica was, after all, only the second brief interlude of gung-ho national self-confidence in a century and a quarter of determined 'catch-up'. (The first such interlude was in 1942 from the capture of Singapore to the battle of Midway.) One obvious indicator of this return to normality is the frequency with which the phrase 'in the advanced countries of America and Europe, reform has already advanced to the point at which . . .' comes up in arguments about change in anything from pensions and corporate governance to patterns of child care. The exemplars of self-reliant entrepreneurship are found in Silicon Valley; the exemplars of bold and effective risk-taking in American venture capitalists; the exemplars of effective and honest corporate governance in American corporations; of 'transparency' in financial transactions in the American stock exchange; of consumer protection in American courts. The economists with PhDs from American universities by now have a large enough share of the posts in economics departments at top-flight universities to have a major effect in disseminating their true-believer perspectives in the financial and business press. And whereas Japanese businessmen used to be sent for 'know thine enemy' purposes to get their MBAs at American business schools and came back to their firms as loyal participants in a consciously different Japanese system, nowadays more of them either go under their own steam, or desert their sponsoring firm, to come back as 'consultants' teaching how to maximise shareholder value. (Ten people in Hays Consultants' Japan office are said to rack up a billion yen a year in fees advising companies on the fashionable 'annual salary system' for managerial salaries.)

To be sure, there is a minority in whom nationalism takes a different form—resentment of American superior power and of the arrogance which is often manifest in trade negotiations and advice on economic management. Such sentiments make them unwilling to see America as a model for anything. They can and do point to the continuing strength of Japanese R&D, the shipyards with three years' order books, the competitiveness of Japan's machine-tool industry. But they are today very much in a minority.

Genuine lock-stock-and-barrel imitators are also in a minority. The majority of Japanese managers have ambivalent feelings about the United States and the American way of life. The dominant line can be summed up as follows:

> Yes, we must do something about our insider-dominated companies; we must seek greater openness and transparency; we must give shareholders a better deal, we must pay more attention to return on equity; we must adopt American management methods; we must get away from seniority and move towards greater recognition for merit; we must break cartels and create real competition; but we should keep lifetime employment for those who want it, and the seniority element in wages may never disappear as it ideally should, and we may never achieve the flexibility and mobility in the labour market which makes for the greatest efficiency and is such a source of American strength. *And*-apart from these pragmatic concessions to the weakness of the flesh enforced by institutional inertia-we would not *want*, anyway, to see in Japan the level of executive salaries produced in America by sheer greed; that is individualism carried to extremes. We must aim for much greater individualism, but of the right kind, 'self-reliant', creative, entrepreneurial, and not voracious.

There are not many people who would argue that this is trying to have one's cake and eat it. It is not part of the *joshiki*, the 'common sense' which dominates these discussions, that it is precisely the 'bureaucratic' career-employment which constitutes the core of the system. It is not, in other words, part of 'everyday popular sociology' to perceive that system, with its relatively compressed wage differentials, and its use of a seniority element in promotion and pay, and the delicate balance of incentives which that implies, as an essential precondition for the combination of cooperation and interpersonal competition which is at the heart of 'Japanese-style management'. Nor is it generally perceived that maintenance of that pattern of career management and managers' relative autonomy from shareholder control are closely interrelated. Few people who discuss the issue draw a distinction between a certain amount of tinkering (like the appointment of some outside directors, for example, not as shareholder watchdogs but as contributors of useful business experience) which may not affect the fundamentals of the system, and more core elements like a shift to market-based labour mobility and rate-for-the-job wages: 'core elements' because if the majority of employees were no longer members of an enterprise community but 'labour' hired by the managers, it would probably entail in the long run a pattern of corporate governance which makes managers really the agents of shareholders, always ready to sell out to a takeover bidder if their interests are not given priority. And *vice versa*: a form of corporate governance which makes for the dominance of shareholder power would end the bureaucratic career system for the bulk of employees. And by either route there is no reason to suppose that, once those other elements have gone, mere cultural antipathy towards 'individualism carried to extremes' would stop the development of the American reward differentials which the proponents of change so often decry.

The view that the Japanese corporation is an integral system, with which, apart from a few peripheral changes, one tampers at one's peril—and a system which still has considerable merits—does have a few articulate academic exponents,[1] but they get little attention in the managerial press. They are often regarded as hopelessly 'nationalistic', the bulk of the media being strong adherents of that more competitive form of nationalism: We are losing. We must pull our socks up, we must imitate the successful 'more advanced' countries.

The whole tenor of such discussions in contemporary Japan demonstrates, if demonstration were needed, the importance of what Nye (1991) calls America's 'soft'

[1] Two notable recent ones are Miyamoto (1997) and Yambe (1997).

power—the power its national prestige confers on the ideas and values it supposedly exemplifies. Another demonstration in contemporary Japan is the acceptance of the claims to authority by the American rating agencies. They are seen as issuing judgements somehow carrying great moral authority as well as financial consequences, even when they are rumoured to be considering downgrading Japan as a sovereign debtor—the country with the world's largest volume of foreign exchange reserves! A detailed investigation of the 'Japan premium' imposed by the international banking community on borrowings by Japanese banks would yield interesting results. A reasonable hypothesis is that—in part stimulated by the capacity for national collective action on the part of Japanese banks—American banks also acted collectively against the Japanese banks who stole so much business from them (exploiting Japanese banks' ability to operate at low profit margins) in the late 1980s. Though many Japanese bankers take this interpretation for granted, they say so only in private. The press rarely questions the alternative hypothesis that the premium results from the rigorous assessment of risk on the part of objective rating agencies. 'A just punishment for our deficiencies.'

Another sign of the dominant consensus: proposals for the transformation of corporate governance seem simply not to be controversial. In June 1997, an amendment of the Commercial Code made the payment of executives with stock options—earlier made available only to venture start-ups—legal for all firms; a clear bid to help persuade executives that they should identify their interests with those of shareholders. A trawl through the reporting of and commentary on the move through the major business newspaper, *Nihon keizai shimbun* found only one critical comment—from a steel executive who wondered mildly whether achievements through collective cooperation of the whole firm would not be damaged if the executives alone benefited hugely therefrom.[1] In April 1998 the Liberal Democratic Party, the overwhelmingly dominant party in a governing coalition with the Socialists plus other tiny groups, published its draft for a further amendment to the Commercial Code. It is concerned primarily with strengthening companies' Audit Committees; a 'greater transparency' move which also serves—and this is said to be a major intention—to dilute the threat to executives of being sued by shareholders for mismanagement. Content apart, the draft begins with a resounding declaration: 'The fundamental principle is shareholder sovereignty. The purpose of the company is to maximise the profits of the shareholders.' The draft got a short paragraph on an inside page of the same newspaper,[2] with no mention of that 'fanfare clause' and no suggestion that the proposed law could ever be a source of controversy.

## Even longer-term sources of structural change

The power of the American model to invoke powerful demands for change in Japanese media discussion is today unquestionable, even if a collapse on Wall Street, a fall in the dollar, and a Japanese recovery could greatly reduce that power. The power of the admired model actually to *procure* change which goes against powerfully entrenched interest is, however, a different matter. If, for example, one examines the actual effect of some of the new managerial salary schemes of the kind introduced so expensively with the aid of Hays Consultants, it appears that the 'salary spread'—i.e., the difference between the top salary of a high-flying manager and the bottom salary of the most plodding of his

[1] *Nihon keizai shimbun*, 17 July 1997.
[2] *Nihon keizai shimbun*, 17 April 1998.

age-and-seniority contemporaries—has hardly changed (a little above 20% over, and a little less than 20% below, the median).[1] The spread is in effect determined by current perceptions of fairness, and those perceptions do not radically change overnight.

So one has to look also for those factors which might change those current perceptions of fairness and the constellation of interests which sustain them. Four possibly long-term and accelerating trends of change come to mind. They can be only briefly sketched here. They are: (i) populist rejection of bureaucratic leadership; (ii) a consequent increase in competition in the non-tradeables sector; (iii) changes in the social selection/social mobility patterns determined by the school system and its ability-sorting mechanisms; and (iv) changes in the balance of party power and, relatedly, in the pattern of enterprise union leadership.

*The bureaucracy*

Japan has been living with bureaucratic arrogance for quite a while, and has even learned to accept it as the price of having a public-spirited, intellectually able and relatively honest administration. But the tolerance threshold has risen in recent years, particularly after one or two spectacular revelations of personal corruption on the part of senior officials. The central focus of this resentment since 1992 has been the hitherto unassailable Ministry of Finance (MOF), supposedly the *crème de la crème*. The revelation of the extent to which some senior officials were accepting treats from the people they were supposed to be regulating—shopping trips to Hong Kong, for instance—was the first shock which coincided with the unexpectedly contested nature of a plan to use public money to clean up (partly rescue, partly dissolve) the post-bubble mess in the mortgage loan credit agencies. (Contested because of the public nature of the battle between banks and agricultural credit cooperatives over who should bear the blame; the Ministry of Finance had failed in what had hitherto been one of its essential skills—getting the consent of all parties before going public.) The public prosecutors, having got the bit between their teeth, produced a succession of cases in 1998, all relating to accepting scandalous amounts of hospitality, a few combined with clear evidence of resultant lax regulation or blatant favours.

So far there seems not to have been much of an effect on the ability of the top ministries to recruit the best and brightest; and there are enough clear-conscience officials to keep morale reasonably high. The MOF was still able, in the spring of 1998 at the height of the scandals, to operate a capital-infusion scheme for the banks in which not only the endangered banks, but all the others, including the healthiest, agreed to take part in order that the banks which really needed the money should not be singled out. However, a prolongation of the kind of front-page media attention the MOF was getting in March and April 1998 could well have long-term effects—on, for instance, its ability to detect and deter bank scandals, and to organise collective action of the kind just illustrated.

*Competition*

What is already clear is that attacks on the bureaucracy have been a powerful element in furthering the deregulation drive, promoted by the press and politicians as a means of (i) shifting policy from a heavy bias in favour of the producer towards more solicitous concern for the consumer; and (ii) reducing the costs of the protected, cartelised non-tradeables sector whose excessive prices damage the competitiveness of the ‘national

[1] See, e.g., Kamiyama, 1995.

champion' exporting firms facing tough competition in world markets. Bureaucratic interference bad; the market principle and free competition good: it is a bold person who challenges that equation in today's Japan, and public interest/public goods arguments in favour of retaining regulations are all too easily dismissed as simply an attempt by bureaucrats to retain the sources of their power.

The effects of greater competition in petrol retailing (for the first time self-service stations have been allowed), in transport, in energy supply, in construction, will be various. Even the most optimistic forecasts suggest a large increase in unemployment before the benefits to consumers of cheaper prices create more new jobs. If, as elsewhere, consumers choose to use the surplus thus generated on imports or the products of automated factories and the unemployment becomes endemic, that could well have knock-on effects on the normative force of the still-valid lifetime employment guarantee.

There will be other, less easily calculable, effects via the 'psychological consonance' mechanism described earlier. If 'convoy systems' disappear over whole sections of economic activity, if more and more people are forced to forget about any obligations to 'the industry' or to their competitors in order to survive the competition; if, in other words, acts of self-regarding individualism or my-firm-first-ism quantitatively increase, so such behaviour will tend to become the norm.

*Social selection and egalitarianism*

Only now is a generation of businessmen with only schoolboy memories of the immediate post-Second World War decade taking over control. Their predecessors, the men who are now retiring from the presidency to the chairmanship, or more likely from the chairmanship to the 'advisorship' role in their companies, are men who have vivid memories of the days of reconstruction just after the war, when they were working to rebuild their factories and their business networks, shoulder to shoulder with skilled craftsmen and labourers, with equally big holes in their socks, and an equal concern with how to get hold of some black-market rice. Indeed some of them, their pre-war academic Marxism turning to practical crusading, briefly inerrupted their successful managerial career to became leaders of the white-collar unions who led the moves to amalgamate with the blue-collar unions.

The vast majority of them did not come from especially well-heeled families. They spent their first six years of schooling in the local primary school, and may still attend their class reunions in company with those who became carpenters, greengrocers and welders. If it is common background, instinctive fellow-feeling and shared hardship that makes for social solidarity and a sense of benevolent responsibility among those who rise to the top, then they have it. The compressed wage differentials and the other egalitarian elements of the Japanese system owe a great deal to those underlying sentiments, and not just to the Confucian, or rather Mencian, prescriptions about the duties of benevolence in which those sentiments are sometimes expressed.

But younger generations (who do not read Mencius, and may have no idea of the Confucian origin of some of the proverbs they use) are of a different sensibility. They have been brought up in affluence. Their smooth career paths have given them no such background of shared experience with those on the receiving end of their orders. For the last 20 years an increasing proportion of them have been siphoned off at the age of 11 into the élite private secondary schools and have no more contact with their less well-off countrymen than an Etonian has with his. Social mobility appears to be declining; an increasing proportion o the graduates of the top universities (who owe their places there not at all to personal influence but to their performance in a genuinely competitive national test) are the children of graduates of similar universities. And it is they who become the people in the top ministries who draft reports on the 21st-century future of Japan's corporations, or the university economists who sit on the ministries' working groups, or members of the businessmen's forum who declare that hitherto there has been too much concern about equality of outcomes when it is equality of opportunity that is important.

*Power distribution*

The egalitarian characteristics of the Japanese system—the compressed reward differentials, the strong redistributive element in the welfare system and the health service, the emphasis on universal schooling—have all rested, not only on the benevolent sentiments of the élite, but also on the power to make trouble possessed by unions and opposition parties. At a recent symposium on governments and markets, the point was made that Japanese industrial policy had not been solely growth policy, but also distribution policy with an egalitarian bias. The civil service head of MITI agreed. Hitherto, he said, with a Socialist Party able to get something like a third of the votes, a system of 'proportionate consensus' had developed. The Socialist Party was able to get 80% of what it wanted by negotiated compromise. Now, with the Socialist Party practically disintegrated, it was difficult to predict what would happen (particularly after the rump of the party ceased to be a member of the government coalition).

As for the unions, the steady decline in strike activity tells its own story about the ability of unions to make trouble for managers who might choose to take firms in an Anglo-Saxon, 'shareholder sovereignty' direction complete with downsizing, fabulous stock options and all the rest. What it does not tell, however, is exactly why and how. A full account would have to include:

(1) The driving force of earlier militancy. The leaders of the spring struggle, from the formation of the system in the mid-1950s to the mid-1970s, worked with a straightforward Marxist model of capitalism as a system in which capitalists extract surplus value from workers. Yearly wage negotiations were about wresting as much as possible of that surplus back. However, especially when the oil shock produced a national sense of crisis, the perception grew that capitalists were not getting much out of the system, and that the managers with whom they negotiated were as much concerned with workers' welfare as with that of their shareholders. (One can still get a laugh of embarrassed recognition from telling a Japanese audience that the difference between a Japanese firm and an American firm is epitomised in the outcome of wage negotiations. An American manager who manages to screw down wages is likely to get a bigger bonus; a Japanese manager who does the same knows that the lower salary increase will probably apply across the board—including his/her own pay packet.)

That reality perception gradually took the fire out of the belly of union organisers as it reduced their capacity to inspire indignation against the bosses in their members. What that perception has not done, however, is to create a new and adequate rationale for the unions' existence. They clearly have one. They still can perform, and often do perform, a very real function as watchdogs of the managers' concern for the interests of their workforce, able to block or delay decisions taken without due consideration of their effects on the work and non-work lives of the lower ranks of the hierarchy. But they are still frozen in the rhetoric of the earlier era. Wage negotiations are still described by union leaders in the now-empty terms of 'struggle', 'victory' and 'defect'. And that is one reason why neither the industrial nor the national federations seem at all disposed to see the present structure of the typical corporation as something that operates to the workers' benefit, nor to react to the effort to restore 'shareholder sovereignty' as a threat.

(2) The other reason lies in the change in union leadership. The post-war generation included a large number of highly able shop-floor workers who has left school at 14. With the rapid and nationwide expansion of higher education, men and women of comparable ability levels were, by the 1960s, almost without fail entering the labour market as graduates from 'good' universities. In the 1960s some of these with a history of student activism became union leaders and injected new blood into traditional militancy. (The closed-ship enterprise union 'encompasses' graduate future managers until they reach positions of line responsibility—usually in their early-to-mid-thirties.) More recently, however, a position in an enterprise union has come to be seen, rather, as a means of demonstrating the leadership qualities which get a manager early promotion. A bright young person might even find the personnel manager enquiring over a drink, 'Have you ever thought of standing in the union elections?' It will not be held against them that they might take a tough line in wage negotiations or in defence of members who have been unfairly treated—provided the consensus within the firm is that the line they take is 'reasonable'.

And, of course, what they and the managerial consensus deem reasonable is highly coloured by their prospective career track. The major union federation, Rengo, is on record as supporting many of the reformers' plans for a revamping of the Japanese employment system: for example, drastic modification of the seniority system to give more rapid promotion to the most able. That is why business federations are frequently heard to praise Rengo for its 'realism'.

(3) So where else might one look for an organised defence of the Japanese model? There remains a party of protest—The Japan Communist Party (JCP)—which can be sure of at least 10% of the vote in a general election and in a recent governorship contest scored almost as much as the main conservative opposition party. It, too, has an affiliated union federation, which is still very much wedded to traditional Marxist militancy, but almost wholly confined to the public sector where the capitalists against whom its literature rages are not very much in evidence.

It was characteristic of the JCP's position as an 'anti-system party', that through all the endless shuffling which produced the most improbable succession of coalition alignments in the first half of the 1990s there was never any suggestion that the JCP might become a member of a governing coalition. But that may change. The party's media prominence has certainly changed. The party political debates on the main national TV channel now regularly include a JCP spokesperson, who is usually able to run rings around the poor unhappy socialist appearing as a member of the governing coalition and defender of government policy.

The party's relevance to attempts to preserve a characteristically Japanese form of capitalism is, however, in doubt. It is still dedicated to the battle against capitalism in general and the local manifestation thereof in particular. In spite of the fact that it has recently published an analysis of the Japanese economy[1] which makes graphic and telling use of national income statistics to show the different 'reproduction cycles' of the UK, the

[1] Nihon Kyosanto Keizai seisaku iinkai, *Nihon keizai e no teigen* (Proposals for the management of the Japanese economy), Tokyo, Shin Nihon Shuppansha, 1994 (9th printing, 1998).

US, the Swedish and the Japanese economies, and the resultant 'who gets what', there is no disposition to draw from these calculations the conclusion that Japan might have a more benign form of capitalism which the JCP might make its business to defend. Among its academic sympathisers, in fact, there is rather a disposition to welcome the reassertion of shareholder rights. Facts are easier to deal with when they conform to your theory.

Eventually, one would guess, generation change within the party and the need to win elections will put the JCP through the same sort of transition as its Italian counterpart began 20 years ago. But there are few signs of it yet. And whether, when it does so, it will transform itself into a defender of 'employee sovereignty' and the egalitarianism of the Japanese model remains to be seen—as it remains to be seen whether, by then, there is any longer a 'Japanese model' to be defended.

## Conclusion

The 'Japanese model' may well not preserve its distinctiveness in the general picture of global capitalism for many more decades. Those factors mentioned earlier as giving the system its coherence can also be mobilised for its dismantling,. The high degree of 'institutional interlock' means that (as we suggested earlier *à propos* the relation between the bureaucratic employment structure and corporate governance) change in one institutional form has repercussions for many others. 'Psychological consonance' can work both ways. As people are seduced into bottom-line-oriented behaviour as savers, or as managers of their companies, so it becomes easier for them to adopt behaviour patterns based on similar values as employees.

However, if and when change comes, it will have very little to do with the current problems of Japanese banks or with the current economic downturn, much less with the panic crises which have afflicted four Asian economies. It will result partly from the long-term pressures stemming from global financial markets, partly from the worldwide effects of American cultural hegemony, and partly from the working through of profound social structural changes stemming from the society's arrival at the age of affluence.

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